

PLAN



your business

CLOSE **GROW** **RUN** **OPEN** **START**





Are you considering starting a business?

Starting a business is a big decision. If you've never owned a business before, you may be unaware of all the things you need to do to get your business going. Careful planning and research will improve your chances of success.

Business training

You don't need a degree in business to start one, but knowledge is power. Taking classes and attending workshops are excellent ways to gain the knowledge you will need to be successful.

Training Opportunities:

- [Small Business Administration](#)
- [SCORE](#)
- [Small Business Development Center](#)
- Community Capital Development - [Washington Business Center/ Women's Business Centers](#)
- [Microenterprise organizations](#)
- [Veterans Business Outreach Center](#)
- Business training - [Career Bridge](#)
- [Government training opportunities](#)
- Your local community college
- Your local chamber of commerce
- [Your local economic development organization](#)



Business planning

Writing a comprehensive business plan is the first step in starting a business. Your business plan will:

- Guide you as you make your business a reality.
- Help you avoid costly mistakes.
- Assist you in preparing financially, whether you plan to fund your business yourself or to obtain outside financing.
- Gain the confidence of others who may have an interest in your business, such as partners, investors, landlords, and suppliers.

The most valuable part of writing a business plan is the education you gain by researching and writing it. While it may be tempting to hire someone to prepare your plan, or to buy an off-the-shelf plan for your type of business, it is in your best interest to do the work yourself. That doesn't mean you should do it alone. It would be wise to work with mentors, consultants, or advisors through the process. Their guidance can save you a lot of time and effort. Below is a list of organizations that can help as you develop your plan.

- [U.S. Small Business Administration](#)
- [SCORE](#)
- Community Capital Development – [Washington Business Center/ Women's Business Centers](#)
- [Microenterprise organizations](#)
- [Washington Small Business Development Center](#)
(contact after you have a draft plan)
- [Business and professional associations](#)

A typical business plan includes the following:

1

Mission & vision statements

A mission statement is a brief description of what you do. It helps you and those working with you to stay focused on what's important. A vision statement answers the question "What do we want to become?" It provides you direction as you make decisions that will impact the future of your business.

2

Business description

Your business description provides the “who, what, when, where” of your business, including ownership, the type of business, start date, and the location.

Your business ownership structure will be included in this section. A business is a legal entity. It can own property, hold bank accounts, and is required to pay taxes. There are different types of business structures, each with unique benefits and limitations. Although the structure of your business may be changed later, it is far easier to select the best option from the start. In actuality, you can’t “change” the structure since it defines the business; instead you would terminate the original business and start a new one, though the outside world may be unaware of the change.

The “right” choice for you depends on your interests and needs. You’ll need sound counsel to understand your obligations regarding your business. Get to know the business structure options and discuss them with your advisors to determine which will be best for you. Find [legal](#), [tax](#) and business ([SCORE](#), [Small Business Development Centers](#)) advisors. Things to consider when making your decision include:

- The number of owners now and in the future.
- The types of owners - such as individuals or entities (corporations, trusts, etc.).
- Liability concerns.
- Federal tax implications - [Internal Revenue Service \(IRS\)](#).
- Registration and tax filing requirements and costs.
- Paperwork and entity management considerations.

Sole Proprietorships are owned by a single person or a married couple. These businesses are inexpensive to form and there are no special reporting requirements. The owner is personally responsible (liable) for all business debts and for federal taxes.

Limited Liability Companies (LLCs) are very popular. The business has limited legal liability like a corporation, but has fewer governance requirements. Creating an LLC requires filing with the Washington [Secretary of State](#). For federal taxes, LLCs are typically treated like sole proprietorships if there is one owner, or like partnerships if there is more than one owner. However, by filing an [entity classification election form](#) with the IRS, LLCs can be treated like



corporations for federal tax purposes. Although not required, forming an LLC should be done with the help of a qualified legal professional. Among other requirements, LLCs must create a governance document called an Operating Agreement.

General Partnerships are like sole proprietorships with more than one owner. Partners share managerial duties, profits and losses, and each is personally responsible (liable) for all business debt. Because the actions of one partner can result in personal liability for the others, partnerships have become less popular since LLCs have been around. For federal tax purposes, the business is required to file a [partnership](#) return, with the income or loss going to each partner based on how much of the business each owns.

Corporations are more complex structures than the others. As with LLCs, corporations have limited legal liability. To form a corporation, you must file with the Washington [Secretary of State](#) and you must create a governance document – which, in this case, would be bylaws. Corporations also have other requirements, such as issuing stock certificates, holding annual meetings and keeping minutes, electing directors, etc. Working owners of corporations are employees and must have federal payroll taxes withheld and reported the same as other employees. [Corporations](#) file federal corporate tax returns with the IRS. If qualified and applied for on a timely basis, corporations may choose pass-through taxation (“[S-Corporation](#)”). Although not required, forming a corporation should be done with the assistance of a qualified legal professional.

Limited Partnerships (LPs) are not used very often for small businesses, although they are common for real estate ownership. LPs are composed of one or more general partners and one or more limited partners. The general partners manage the entity and share fully in its profits and losses. To protect themselves from liability, general partners are often corporations or LLCs rather than individuals. Limited partners share in the profits of the business, but their losses are limited to the extent of their investment. Limited partners are usually not involved in the day-to-day operations of the entity. Get legal advice before choosing an LP structure for your business. Like LLCs and corporations, creating an LP requires filing with the Washington [Secretary of State](#).

Washington State Business and Organization Structure Considerations:

Considerations	Sole Proprietorship	General Partnership	Limited Liability Company (LLC)	Corporation
File or register with Washington Secretary of State	No	No	Yes	Yes
Formation Difficulty	Low	Low	Medium	Medium/High
Liability	Sole Proprietor has unlimited liability for debts and taxes.	Partners have unlimited liability for debts and taxes.	Members are not typically liable for debts other than taxes.	Shareholders are not typically liable for debts other than taxes.
Operational Requirements	Relatively few legal requirements.	Relatively few legal requirements	Some formal requirements such as operating agreements and annual reporting.	Board of directors, annual meetings, annual reporting required.
Management	Sole proprietor has full control of management and operations.	Typically each partner has an equal voice, unless otherwise arranged.	LLCs have an operating agreement that outlines governance and management.	Corporations have bylaws that outline governance. Typically managed by directors who are elected by shareholders.



Considerations	Sole Proprietorship	General Partnership	Limited Liability Company (LLC)	Corporation
Federal Taxation	Sole proprietor reports all business revenues & expenses and pays taxes through personal return.	Each partner reports their share of business revenues & expenses and pays taxes through personal return.	If one LLC member, typically pay taxes as individual. If more than one member, typically pay taxes as partnership. Can elect with IRS to pay taxes as a corporation (either c- or s-).	If standard corporation (c-corp), taxed as a business. If dividends are distributed to shareholders, dividends are taxed at the individual level. Can elect with IRS to be taxed as an s-corp. Each s-corp shareholder reports their share of business revenues & expenses and pays taxes through personal return.
Washington Excise Taxation and Liability (Washington Department of Revenue)	Taxes based on business income. Sole proprietor has unlimited liability.	Taxes based on business income. General partners have unlimited liability.	Taxes based on business income. Members may have liability for taxes.	Taxes based on business income. Governing persons may have liability for taxes.

NOTE: This information is for reference only, for detailed considerations contact your trusted legal or tax advisors.

3

Market analysis

A market analysis will help you determine if there is a need in the marketplace for your product or service, who would be most likely to buy your offerings, and where your customers are located. Include:

- An analysis of your industry.
- Evidence of demand for your product or service.
- A description of your target market (customer profile).
- Your market size (looking at area demographics and the growth of your industry).
- Your competition and why people would choose your product or service over the competition.
- Estimated sales volume and revenue.

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Marketing plan

Once you've identified your customer, you need to explain how you will get your customers to buy your product or service. Include:

- Your pricing strategy, including the price floor (the price at which you would break even), the price ceiling (the maximum price people would consider paying for your product or service), and your pricing relative to your competition (same, lower, higher).
- Your desired image (in light of your target market) and how to achieve it through advertising, signage, business cards and letterhead, brochures, office/store appearance, your appearance, and other means of outreach.
- Your promotion and advertising strategy to reach your target market (such as use of website, social media, yellow pages, news releases, personal network, cold calls, newspaper, radio, television advertising, direct mail, etc.).
- The costs and timing of your marketing activities.

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Operations plan

This reflects all the basics of operating your business. Include:

- Your business location. Who owns it? What are the lease terms? What will be required to get it ready with regard to zoning, permitting, construction and tenant improvements?



- Furnishing, fixtures, equipment and supply needs.
- Inventory. What will you inventory in what volumes? Who will your vendors be? How will you store and track the inventory?
- Description of operation, such as the activities from when an order for products/ services is received through its delivery, the cycles for inventory or materials/supplies purchase, and other cycles inherent to your business.
- Key players and their operational roles in the business (co-owners, managers, advisors).
- Legal needs, insurance needs, and an understanding of your regulatory requirements.
- Recordkeeping and accounting needs (inventory tracking, accounting system, billing method, filing systems, etc.). Who will handle day-to-day accounting? Who will be your business banker? Who will be your business accountant and what services will they provide?
- Consider including a section on emergency preparedness. Unexpected events could damage or destroy your business and its records. [Prepare a plan](#) in advance.

6 Personnel plan

Most new businesses start small and grow. When you do hire, having employees with the right attributes and skills for your business will be very important to your success. There are resources to help you with employment planning, including [Workforce Explorer](#).

Employment is an area that has a lot of regulation, including minimum wage, overtime pay, employment of minors and family members, workplace safety, etc.

The use of independent contractors is a frequently misunderstood area. Generally, state and federal law would require that an individual be treated as an employee unless the individual:

- Is truly in business for himself or herself.
- Is licensed and actively markets his or her services.
- Has multiple clients/customers.
- Is performing work that is outside the business's normal activities.

Being an employer also requires you to keep detailed records and fulfill your tax reporting obligations. It is important that you understand the regulations and costs as you plan your business. The links below can help you understand your responsibilities.

- [Employment Law Advisor](#)
- [Wage and hour laws](#)
- [Employment of minors](#)
- [Independent contractors \(Labor & Industries\)](#)
- [Independent contractors \(Employment Security\)](#)
- [Independent contractors \(IRS\)](#)
- [Workplace safety](#)
- [Federal payroll taxes](#)
- [State unemployment taxes](#)
- [Workers' compensation](#)
- [City of Seattle sick leave requirement](#)

Include in your Personnel Plan:

- Positions needed and when.
- Whether employees are permanent or temporary. If temporary, whether you'll employ them directly or use an outside agency.
- Job descriptions and skill needs.
- Training requirements.
- Compensation and benefits.
- Personnel policies.

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Financing plan

Projections:

You need to have a well-researched estimate of the start-up and operating costs of your business. You also need to have a realistic expectation of the amount of money your business will bring in. These projections will help you prepare financially for starting your business, whether you finance the business yourself or seek outside loans or investors.



Include projections of:

- Start-up costs. Determine how much start-up money you'll need for facilities, equipment, furnishings, fixtures, supplies, signage, licenses and permits, advisors, etc. Include all costs necessary to execute your business plan.
- Monthly cash flow projection. A cash flow projection is effectively your budget. You should budget at least 24 months at a high level of detail, showing the amounts and timing of cash flowing into and out of the business. The start-up costs and cash flow projection together will show the total funds needed for the business to reach the point of sustainability (when it can pay for itself).
- Projected profit & loss statements (P&Ls) for at least two years. P&Ls, also called income statements, show a picture of the business using the equation:
$$\text{Revenues} - \text{Expenses} = \text{Profit (or Loss)}$$
- Projected balance sheets for the start of the business, the end of year one and the end of year two. Balance sheets show a picture of the business using the equation:
$$\text{Assets} - \text{Liabilities} = \text{Net Worth (or Equity)}$$

Financing:

Once you know how much money your business will require to reach the point where it can begin supporting itself, you can determine how to get the needed funds.

- Potential sources of funding include owner savings, friends, family and other private lenders, business partners, credit cards, business loans, public stock offerings, etc. Not all of these sources may be appropriate for you and your business.
- Although you may have heard rumors that there are grants to start businesses, it is generally not true. Only in very specific situations are grants provided for starting a business; an example would be scientific research and development that is needed by federal agencies.
- Business loans typically require the "5Cs":
 - Capital/Cash – the owner's cash investment. Owners usually must bring 25-30% of the funds needed to start a new business.
 - Capacity/Cash Flow – evidence that the business owner has the ability to start and run the business successfully. The owner's industry experience, business training and management experience, in combination with a well-developed business plan, will help establish capacity. The cash flow projection is critical here,

and it needs to show the ability of the business to meet its financial obligations, including making loan payments.

- Collateral – something of value to pledge. Typically collateral includes business property, furnishings, fixtures, equipment, and inventory, plus owner assets outside of the business (real estate, stock, etc.).
- Character – confidence that the owner takes responsibilities seriously, as demonstrated, in part, through the owner’s credit history.
- Conditions – confidence that the overall environment (economy, industry trends, and market forces) supports the business’s potential for success.
- The act of seeking investors and private lenders is highly regulated and requires an understanding of [securities laws](#).
- If you can’t finance your business at the level you first planned, think of ways you might scale back your plans, such as start smaller, buy fewer supplies/equipment, lease equipment or buy used equipment, hire fewer employees, find a less expensive location, etc. Be aware that changes you make on the expense side will likely also affect your revenue projections.
- Go to these websites for assistance with business financing:
 - [U.S. Small Business Administration](#)
 - [Small Business Development Center](#)
 - [Washington Department of Commerce](#)
 - [Office of Minority and Women’s Business Enterprises](#)
 - [Small Business Administration \(SBA\) Veteran Office](#)
 - [Microlenders in Washington State](#)

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Need assistance?

State of Washington [Small Business Liaisons](#) can help you get the information and resources you need. Also, help us improve the Small Business Guide by filling out a short, confidential [survey](#).